

MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.
ONLINE/CALL-IN MEETING

June 26, 2020

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. via teleconference. A quorum was established.

Members Present

Mr. Joseph H. Badal, Chair
Mr. Steven E. Morgan, Secretary/Treasurer
Mr. Alan Fowler
Mr. Guadalupe Garcia
The Hon. Tim Eichenberg, New Mexico State Treasurer

Members Excused

Ms. Roxanna Meyers, Vice Chair

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Mr. Randy McDonald

Recording Secretary

Ms. Charmaine Clair, for Judith Beatty

Guests Present

Mr. Tom Stephenson, Managing Partner, Verge Fund
Ms. Robin Brule, Senior Vice President Community Relations, Nusenda
Ms. Maggie Newman, Program Manager, City Alive
Ms. Vanessa Roanhorse, Roanhorse Consulting

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Morgan moved acceptance of the agenda, as published. Mr. Eichenberg seconded the motion, which passed unanimously.

REVIEW AND ACCEPTANCE OF BOARD MINUTES FOR APRIL 23, 2020

Mr. Fowler moved acceptance of the board minutes for April 23, as presented. Mr. Garcia seconded the motion, which passed unanimously.

PROPOSED LINE OF CREDIT TO NUSENDA/CITY ALIVE CO-OP PROGRAM:

- **MAGGIE NEWMAN, PROGRAM MANAGER, CITY ALIVE**
- **VANESSA ROANHORSE, ROANHORSE CONSULTING**
- **ROBIN BRULE, SENIOR VICE PRESIDENT COMMUNITY RELATIONS, NUSENDA**

Mr. Cummins stated that the board package includes some questions and answers about the program along with financial information for Nusenda. The Discussion Term Sheet for a proposed loan to Nusenda for the City Alive Co-Op Capital Program included the following key terms:

- \$1 million line of credit from NMSBIC
- 5-year term
- 2% interest rate from the NMSBIC, with 0% interest for up to three years for any loans that meet the NMSBIC's COVID-19 loan criteria, and a reduction in the interest rate for 1% for twelve months of offset costs related to originating COVID-19 loans.
- Nusenda charges 5% interest rate on the loans and 0.0% to businesses that have been impacted by the COVID-19 crisis.
- Nusenda would be responsible for all loan losses
- Borrowers would have a non-profit sponsor. The non-profit would approve the loan, and provide cash collateral equal to 10% of the loan amount. Nusenda provides collateral equal to 20%, and the W.K. Kellogg Foundation provides collateral equal to 70%.
- The loans are for borrowers that can't qualify for start-up loans from banks or CDFIs. The borrowers receive intensive support from the non-profit sponsor.

Ms. Brule stated that requests are processed within 24. The first payment is not due for 90 days. She said Nusenda has had no defaults, takes 100 percent responsibility for the investment, and has \$2.44 billion in assets and over 211,000 member owners. She said there is no credit risk to the NMSBIC.

Ms. Roanhorse discussed her role in this transaction. She said Roanhorse Consulting has been working with Nusenda to identify non-profit organizations, and has 11 partners they are working with across the state. Some of their partners are serving reservation travel-based businesses, and they also have partners working with families that might face issues with immigration status.

Chairman Badal asked if Nusenda charges a fee to borrowers. Ms. Brule responded that there is no charge to borrowers, and Nusenda is not making any money on this.

Chairman Badal said page 35 in the materials reflects \$250,000 in loans, and asked if that is accurate. Ms. Brule said Nusenda now has over \$400,000 in loans out at an average of \$900 to \$2500 per loan. She said all are being paid back on time. She said the increase is due to Nusenda trying to accelerate capital into the community.

Ms. Brule clarified that the Kellogg Foundation has not put a cap on the amount they have agreed to subsidize, and recently gave Nusenda an additional \$400,000 to support the program. Their original investment was \$500,000 in program-related investment and \$300,000 in capacity support. She said Nusenda expects to deploy the entire \$1 million in proposed NMSBIC funding within the next six months, and will draw the funds down as they are utilized.

Mr. Cummins recommended beginning with a \$1 million line of credit and then revisiting this in six months should there be a need for an increase.

Mr. Morgan moved to approve the recommendation for the line of credit to Nusenda/City Alive Program as presented. The motion was seconded by Mr. Garcia and passed by roll call vote, with Mr. Morgan, Mr. Eichenberg, Mr. Garcia and Chairman Badal voting in favor, and Mr. Fowler in abstention.

Chairman Badal complimented Mr. Cummins for finding another place to deploy NMSBIC funds. He said this sounds like a win-win situation.

FINANCIAL REPORTS AS OF APRIL 30, 2020 AND MAY 31, 2020

Mr. Cummins reviewed highlights:

-- Bonds (SIC Core Plus Bonds) decreased from about \$48 million to \$22 million, primarily because of a \$26 million withdrawal primarily to provide funds to DreamSpring for the PPP loan program. In addition, the NMSBIC replenished funds that had been drawn from the LGIP account.

-- Total Loan Agreements increased to \$60.8 million from \$43.6 million the previous month, primarily due to (1) an increase in DreamSpring's outstanding balance to \$37.2 million from \$21.3 million, including \$30 million for SBA PPP loans, and (2) an increase to \$5 million from \$3.7 million in Ventana Fund's outstanding balance.

-- DreamSpring continues to take applications for PPP loans, which is scheduled to end on 6/30. They believe they will be able to deploy the full \$30 million by that date. As of May 12, DreamSpring had closed and funded \$24.3 million in PPP loans and had \$3.8 million in SBA PPP ETran approvals in process. CFO Ray Ziler indicated last week that they anticipate starting to file applications for pre-purchase with the SBA starting in July.

-- Total interest income for the lending program is ahead of budget month-to-date by \$26,878, and year-to-date by \$313,287, primarily due to higher-than-budgeted interest

on LGIP and SIC Core Plus Bond investments. Even with the reduction in interest rates for lending partners related to the COVID-19 crisis, monthly net interest income on loans is more than covering monthly operating expenses.

-- Funds available for investments and operations were \$14.4 million as of May 31. With today's approval of \$1 million for Nusenda, that leaves about \$13.4 million available for new investments.

Mr. Fowler moved to approve the Financial Reports as of April 30, 2020, and May 31, 2020, as presented. Mr. Garcia seconded the motion, which passed unanimously by roll call vote, with Mr. Morgan, Mr. Fowler, Mr. Garcia, Mr. Eichenberg and Chairman Badal voting in favor.

NMSBIC BUDGET FOR FISCAL YEAR ENDING JUNE 30, 2021

Mr. Cummins reviewed highlights of the proposed budget for FY 2020-21:

- \$30 million in PPP loans are forecasted to be repaid in July through October 2020.
- Forecasted growth in “non-PPP” outstanding loans is \$4.1 million with a net \$2 million increase forecasted for The Loan Fund, and the other \$2.1 million spread among DreamSpring, WESST, Ventana Fund, LiftFund, and HomeWise.
- Net funds projected to be received are forecasted to be added to the LGIP account at the State Treasurer’s Office. The average yield on the LGIP account has been 1.57% in the current fiscal year, and is forecasted to drop to 0.25% for the 2020-2021 fiscal year.
- The balance in the SIC Core Plus Bond Pool is forecasted to remain at about \$22 million. The average interest yield on the SIC Core Plus Bond Pool has been 3.6% in the current fiscal year. When adjusted for management fees and market losses, the net yield has been 1.50%. The net interest yield is forecasted to drop to 1.0% for the 2020-2021 fiscal year.
- Total interest income is budgeted to drop to about \$761,706 from \$1,434,203 forecasted for the current fiscal year. This is primarily due to reductions in interest rates charged to lending partners during the COVID-19 crisis, and lower interest rates expected on investments in LGIP and the SIC Core Plus Bonds.
- Operating expenses are budgeted to increase to about \$310,000 from about \$280,232 forecasted for this year, primarily due to a projected increase in consulting fees; an increase in the D&O insurance premium related to the increase in the NMSBIC’s assets; and \$10,450 budgeted for “other” expenses.
- Net income from operations is budgeted to drop to about \$451,537 from \$1,154,971 forecasted for the current fiscal year.

Mr. Garcia moved to accept the NMSBIC budget, as presented. Mr. Eichenberg seconded the motion, which passed unanimously by roll call vote, with Mr. Morgan, Mr. Fowler, Mr. Garcia, Mr. Eichenberg and Chairman Badal voting in favor.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

Mr. Cummins presented the following highlights:

-- Recap of recent changes to lending partners as of 5/31/20, with total loans committed at \$81,360,581.

-- HomeWise is taking applications for their loan program and hope to have loans funded soon.

-- LiftFund has not generated any New Mexico loans since signing the loan documents because they have been focusing on loan modifications for their existing companies. They are now ready to start generating loans in New Mexico, and recently issued a press release regarding their New Mexico lending program.

-- The Loan Fund's outstanding balance was \$17.8 million as of May 31, or 71% of its \$25 million maximum funding amount. They have processed about \$680,000 in COVID-19 loans and feel it has had a very positive impact. Mr. Pacheco said he appreciated the NMSBIC Board's actions regarding the COVID-19 program, as well as the reduction in interest rate from 2% to 1%.

-- George Maestas at the New Mexico Mortgage Finance Authority has indicated the MFA has a loan in process for which it plans to use NMSBIC funding.

-- RCAC recently indicated that they have been focused on assisting existing clients, which delayed review of loan documents for the NMSBIC line of credit. They have since approved the loan documents and execution of the documents is in process.

-- Ventana Fund's outstanding balance as of May 31 was \$5 million, or 91% of its \$5.5 million maximum funding amount.

-- WESST is focused on working with existing borrowers on loan modifications. They have roughly \$1 million in SBA loans in addition to the \$109,350 in NMSBIC loans. They are not participating in the NMSBIC's COVID-19 loan program because the NMSBIC will uses an "old" loan participation with WESST. The NMSBIC would like to convert WESST to a newer version of the NMSBIC's participation agreement as part of any modification. Kim Blueher would like to defer any discussion about possible changes until activity slows related to the current crisis.

-- New Mexico GAP Fund is making progress with plans to sell two convertible notes to the NMSBIC as part of the winding-down and closing of the partnership. The NMSBIC currently owns 92.4% of the partnership, and has approved purchasing assets related to the remaining 7.6% ownership interests at a price that discounts the net asset values by 75%. He had a conference call with Chris Traylor yesterday to review the loan agreements for the two convertible notes, and discussed the process for determining the net asset values for the companies.

-- New Mexico Community Capital continues to work on an exit for the one remaining active company, and collecting an outstanding payment due as a deferred portion of the sales price of a portfolio company sold in a prior year.

-- New Mexico Mezzanine Partners continues to work on the collection of outstanding loans from two portfolio companies and is optimistic that the smaller of the two loans will be repaid in the next few months. The second loan is more challenging, and the borrower is looking into repurposing its operations to repay the debt. Mr. Doolittle wants to continue working with the company to try and retain jobs in Deming, with foreclosing on the property as a last resort.

-- There was a \$2.6 million market value loss in the SIC Core Plus Bond Pool in March with partial recoveries in April and May. The YTD market value loss is \$346,899 as of May 31, 2020. Even with that large loss in March, year-to-date the NMSBIC is in a positive net yield position of \$267,000, or 1.50%.

-- Mr. Cummins continues to communicate with Mark Scheffel at Advantage Capital. Discussions are on-hold during the COVID-19 crisis. He is also in discussions with potential new lending partners InvestUS and Arctaris.

-- Mr. Cummins said discussions with the Albuquerque Airport continue. City attorneys are concerned about the City's Economic Development Department's ability to borrow outside of their existing bonding authority. Mr. Cummins said he has discussed this with Randy McDonald, and they think it might be possible to structure an arrangement with the City as a joint powers agreement rather than a loan. Nyika Allen, Albuquerque Airport Director of Aviation, indicated this might be a workable solution. In terms of the NMSBIC board's discussion about having the Airport provide the full amount in cash collateral, the cash collateral might not be possible. As an alternative, a take-out commitment from the City is being discussed, which would pay off the NMSBIC loan after completion of construction.

PROFESSIONAL SERVICE AGREEMENT RENEWALS:

- **RANDALL MCDONALD**
 - **DEE BRESCIA**
 - **JUDITH BEATTY**
 - **RDC ADVISORS, LLC**
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Mr. Cummins said there was no change in pricing or terms for Mr. McDonald, Ms. Brescia, or Ms. Beatty.

Mr. Cummins said the Professional Services Contract for RDC Advisors, LLC, included changes to the monthly compensation approved by the NMSBIC board of directors on February 10, 2020; and new language for “Expanded Services” related to management of direct investments from terminated limited partnerships.

Chairman Badal thanked all four of these individuals/entities for their continued support of the NMSBIC.

Mr. Fowler moved to approve all four Professional Services Agreement renewals, as presented. Mr. Morgan seconded the motion, which passed unanimously by roll call vote, with Mr. Morgan, Mr. Fowler, Mr. Garcia, Mr. Eichenberg and Chairman Badal voting in favor.

VERGE FUNDS: PROPOSAL TO RESTRUCTURE ALL VERGE FUNDS INTO ONE FUND AND OPPORTUNITY FOR THE NMSBIC TO PURCHASE INTERESTS OF OTHER LIMITED PARTNERS: TOM STEPHENSON, MANAGEMENT PARTNER, VERGE FUNDS

Mr. Cummins said Mr. Stephenson is requesting consideration from the board on the following two items:

- First proposal: A reorganization of the five Verge funds. A proposed restructure into one fund to reduce operating expenses with a provision for capital call where investors would be asked to provide additional cash for expenses.
- Second and separate proposal: Verge management wants to offer smaller limited partners with a way out, likely at a substantial discount of 65-70%. Mr. Stephenson would facilitate exchanges if any LPs, such as the NMSBIC, are interested in purchasing shares from other LPs at substantial discounts. The NMSBIC would have the opportunity to decide on a cap and price. Mr. Stephenson feels there would be roughly \$1 million available to be traded.

Mr. Stephenson reviewed a slide presentation.

- Combine all five Verge funds into one fund. Relative ownership determined by NAV at 12/31/2019. Would reduce expenses substantially.
- Extend combined fund to 12/31/2025. No further extensions allowed.
- Carried interest does not start until 1.71x of current NAV is returned, which allows all LPs to reach full payout.

- A single, phased capital call to cover expenses – 2.1% of historically committed capital, which for NMSBIC would be \$184,800 payable in three installments at closing (around 8/31/2020), at 1/1/2022, and at 7/1/2023.
- Capital call is not mandatory, recognizing that some LPs may not have the capacity, although most must participate to generate needed cash. Capital call will be paid back 3x before return of capital, so LPs who participate will have their capital accounts increased by 10%.

Mr. Stephenson said the return for all of the funds would be driven by four remaining active companies.

Mr. Stephenson said all four companies received Payroll Protection Plan (PPP) funding.

Chairman Badal asked Mr. Stephenson if any of the smaller LPs are interested in selling their interest at a discount. Mr. Stephenson responded that he hasn't canvassed all of the smaller LPs but thinks there is a reasonable chance that a number of them might be interested in selling a portion of their interest in order to cover the cost of the capital call while leaving some upside going forward. He said the total NAV of all the funds together is just under \$14 million, with maximum interest at about \$4.5 million, which is on the high side. At a substantial discount, the purchase price might be around \$1 million.

Chairman Badal asked Mr. Cummins to meet with Mr. Stephenson to discuss the second proposal, and then return to the board with a proposal as quickly as possible. He asked that today's discussion be limited to the first proposal.

Mr. Eichenberg asked Mr. Cummins why he favors extending the combined fund to 2025. Mr. Cummins responded that the COVID-19 crisis has impacted the companies. The additional time will provide time to get through the COVID-19 crisis, and then grow the companies to hopefully add jobs and achieve positive exits.

Mr. Eichenberg asked what the advantage is to the NMSBIC. Mr. Cummins responded that by combining the funds, there will be reduced expenses over the next five year period. Mr. Eichenberg asked what the disadvantage is to merging the funds. Mr. Cummins responded that he could not think of any disadvantage to combining the funds. Mr. Stephenson added that there is very little disadvantage to the NMSBIC because it already has an ownership stake in four of the five funds. He said he would argue that the diversification and reduction in expenses is better. He pointed out that the other alternative would be to wrap up the funds, in which case the NMSBIC would have private company holdings without anyone managing them. Mr. Fowler commented that, if all the companies end up failing and not providing any value, the NMSBIC would not incur the additional five years' worth of expenses, but obviously the hope is that this would not be the case. Mr. Stephenson agreed that remains the risk with private equity investments.

Mr. Cummins recommended that the NMSBIC board of directors approve the proposed restructuring.

Mr. Garcia moved to approve combining the five existing Verge funds into one fund; that the new fund be extended to December 31, 2025; that the carried interest be modified so that it does not start until 1.71 times the current net asset value is returned; that the board approve payment of a phased capital call equal to 2.1% of the NMSBIC's \$8.8 million in committed capital, with capital calls payable in three installments spaced approximately 18 months apart in 2020, 2022 and 2023; and subject to approval of the legal documents by Russell Cummins and Randall McDonald and signed off by Chairman Badal. Mr. Fowler seconded the motion, which passed unanimously by roll call vote, with Mr. Morgan, Mr. Fowler, Mr. Garcia, Mr. Eichenberg and Chairman Badal voting in favor.

Chairman Badal said that, in terms of the second proposal, Mr. Cummins should see what the table on page 92 would look like based on recommendation of total dollars committed and capital calls with regard to various discounts.

LEGISLATIVE UPDATE, 2020 LEGISLATIVE SESSION

Mr. Cummins reported that the Small Business Recovery Act of 2020 was passed by the New Mexico House and Senate during the legislative special session, which began on June 18, and the Governor is expected to sign it.

Mr. Cummins said there were some modifications to the original bill, but language was added to the final version stating that the New Mexico Finance Authority "shall evaluate the credit worthiness of an applicant based on information received from the applicant, which may include an independent credit reporting agency report, when available." He also noted that the final version does not include a list of eligible industries. In summary, this is a loan program with up to \$400 million allocated from the Severance Tax Permanent Fund, and loans up to a maximum of \$75,000 per business would be originated by CDFIs and federally insured banks and would be purchased by the New Mexico Finance Authority.

Mr. Cummins stated that Rick May, who works with the House Republican leadership, called him last week and left a message asking for his input about the bill. Mr. Cummins said he returned the call and left a message, but did not hear back. Mr. Cummins said he also reached out to the Governor's Office to ask some questions about the bill, but was unable to connect with anyone.

Chairman Badal said he and Mr. Cummins were originally concerned that a CDFI or bank could lend up to \$75,000 but could only charge one half of 1% of the loan amount, which would be \$375 for a maximum loan of \$75,000. Mr. Cummins said the bill does not provide any language about an origination fee for the lenders, but there is a fiscal impact report published on the legislative website indicating that lenders participating in the program will be paid a fee equal to 2% of the loan amount. The fiscal impact report also that this could be an issue for

lenders given that the SBA's PPP program was paying lenders a fee of 5% of the loan amount. He said it appears the loan origination fee is an administrative provision that is not included in the bill.

**LETTER TO ATTORNEY GENERAL FROM RANDALL MCDONALD REGARDING
OPEN MEETINGS ACT**

Mr. Cummins said the board package includes a letter from Mr. McDonald to the Attorney General's Office advising them of action taken on an emergency item at the last meeting, which was not on the NMSBIC agenda, to expand the NMSBIC commitment to lending partners related to the COVID-19 crisis from \$35,000,000 to \$45,000,000.

BOARD CONTINUING EDUCATION

Not addressed.

CHAIRMAN'S COMMENTS

Chairman Badal thanked everyone for their hard work, time, and support.

ADJOURNMENT

The meeting adjourned at 11:25 a.m.



Joseph Badal, Chairman

August 26, 2020

Date